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C O N F I D E N T I A L MANAGUA 002611

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DEPARTMENT FOR WHA/CEN

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SUBJECT: ELECTION OUTCOME -- THE WAY FORWARD

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1B. MANAGUA 02521

Classified By: Ambassador Paul A. Trivelli. Reasons 1.4 (B,D).

11. (C) INTRODUCTION/SUMMARY: Sandinista Liberation Front (FSLN) President-elect Daniel Ortega realizes that our recognition of his minority government is critical to the continuation of our assistance programs, much-needed foreign investment, and to some degree, the policies of the international financial institutions (IFIs) and their instruments vis a vis Nicaragua. Clearly, Ortega needs us much more than we need him, but he also faces the expectations of his populist base and his authoritarian allies, who will press him to lead Nicaragua in their direction. How Ortega juggles these contradicting demands and fulfills his promises to the Nicaraguan people will largely determine his success or failure. In his comments to the press, via domestic and foreign intermediaries, and in his recent meetings with other Central American presidents and with Assistant Secretary Thomas Shannon, Ortega has signaled his desire to work with us.

12. (C) Assistant Secretary Shannon's November 27-28 visit to Managua allowed him to convey to President-elect Ortega from the start that our government will speak with one voice and adhere to one policy. A/S Shannon's and the Ambassador's joint meetings with Ortega, President Bolanos, opposition political leaders, and civil society leaders, and the Assistant Secretary's remarks to the press, allayed fears that the U.S. will somehow abandon Nicaragua's democracy and its people. Indeed, our bilateral interests remain unchanged: keeping Nicaragua on the democratic path, ending the Ortega-Aleman pact's control of the political, electoral, and judicial systems; ensuring cooperation in combating corruption and terrorism and narcotics, arms, and people trafficking; resolving outstanding property claims cases; and, implementing fiscally responsible, free market policies -- including cooperation on advancing CAFTA. This cable outlines these interests, our leverage via programs and other resources, and the markers and red lines to monitor and assess the bilateral relationship. Ambassador met with FSLN International Relations Secretary Samuel Santos on November 30 to follow up on our plans, and outline our programs and their parameters to members of Ortega's transition team in December. END INTRODUCTION/SUMMARY.

USING OUR LEVERAGE

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13. (C) Our bilateral relations and assistance programs are largely governed by a series of laws, agreements or

requirements -- U.S. legislation including the annual Section 527 property waiver; Title III of the Libertad Act; the annual Trafficking in Persons (TIP), Human Rights, Religious Freedom, and counter-terrorism and counter narcotics (INSCR) reports/related legislation; Temporary Protected Status (TPS) extensions; the text of CAFTA-DR; and our Millennium Challenge Compact (MCC) indices. Thus, our continued assistance should reflect the degree to which the Ortega government remains within these parameters.

#### OVERRIDING MARKERS AND RED LINES

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¶4. (C) Our mission's first objective is protecting U.S. citizens in country and the foreign nationals who work for us. Any systematic legal/administrative harassment of our diplomatic mission, its operation and its employees or of U.S. citizens residing in Nicaragua would be unacceptable, and potential grounds to take action vis-a-vis our assistance programs and overall bilateral relationship. Similarly, while we expect Ortega will maintain close ties with leftist allies like Muammar Khadaffi, Fidel Castro, Hugo Chavez, who will press him to lead Nicaragua along a populist, authoritarian path, we must impress upon him that if he places Libyan, Venezuelan or Cuban officials in strategically sensitive government ministries, as advisers to the police or military, or as educators or public health workers whose main objective is to indoctrinate Nicaraguans against the United States and democracy, we will deem these actions hurtful to our interests and our assistance programs.

#### FOREIGN POLICY CONCERNS

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¶5. (C) We can expect the Ortega government will shift Nicaragua's foreign policy towards the left, e.g., not support our positions on Cuba or Palestine, and probably differ with us over Iraq, Iran and North Korea. The issue will be more a matter of degree of differentiation and activism on these fronts, and the FSLN government's willingness to play a constructive, responsible role. Early clarity on our red lines will be essential. If a moderate Sandinista assumes the leadership of the Foreign Ministry (MFA), we can expect more fluid engagement on these issues, and in some cases, we may be able to persuade the MFA to abstain in particularly contentious votes in international fora.

#### KEEPING NICARAGUA ON THE DEMOCRATIC PATH

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¶6. (C) Keeping Nicaragua on the democratic path includes helping it strengthen and consolidate its democracy, guaranteeing space for and strengthening of pro-democratic, non-FSLN/Liberal Constitutional Party (PLC)-"Pact" parties and civil society (NGOS like the Movimiento por Nicaragua (MpN), Etica y Transparencia (ET), and IPADE; private sector, and religious organizations, and academe); enacting electoral reforms that depoliticize the Supreme Electoral Council (CSE) and guarantee voter rights and cedula/national identity cards to all eligible Nicaraguan citizens; ensuring the non-partisan defense of human rights -- including freedom of expression and an independent media -- and in the exercise of rule of law; and, depoliticizing and reducing the Ortega-Aleman pact's control of Nicaragua's electoral and judicial systems.

#### ERODING THE ALEMAN-ORTEGA PACT, PROMOTING GOOD GOVERNANCE

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¶7. (C) We can expect that Ortega will attempt to maintain the leverage he has gained from his pact with convicted money launderer/PLC caudillo Arnoldo Aleman, while he will also court Nicaraguan Liberal Alliance (ALN) leader Eduardo Montealegre, who has gained a seat in the National Assembly. With Ortega's victory, the FSLN will control every sector of the government except the National Assembly, and even there, its influence will predominate. While the FSLN will be

unable to pass constitutional reforms or other laws requiring a 2/3 majority vote without the support of other parties, it could combine its votes with either the PLC or the ALN to surpass the 56-vote threshold required to legislate constitutional reforms. (Note: According to the CSE's final official results, the FSLN obtained 38 Assembly seats, the PLC 25, the ALN 22 (plus Montealegre's and President Bolanos' seats), and the MRS 5 seats. End Note.)

--Markers: Ortega/FSLN relationship with Aleman/PLC in their parties' positions on legislation, prosecutorial/defense, court cases, regulatory standards, CSE electoral policies, and the appointment of new Supreme Court justices, the Attorney General (Procurador General), Chief Public Prosecutor (Fiscal General), and Controller General.

--Red Lines: Actions that further consolidate FSLN-PLC Pact interests to the detriment of Nicaragua's democracy and its people, e.g. a new Assembly board (junta) that reflects the Pact rather than the Assembly's new pluralism; the appointment of unqualified, biased, and/or corrupt judges or other officials on the basis of partisan interests; passage of legislation that erodes efforts to combat corruption, including the release of Aleman or broad amnesty; and, holding hostage legislation required by the IFIs to meet Nicaragua's commitments to international instruments. These actions would contradict the FSLN's campaign pledges to abide by the rule of law and fight corruption.

#### COOPERATION IN COMBATTING CORRUPTION, TERRORISM, NARCOTICS, ARMS, AND PEOPLE TRAFFICKING

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18. (C) The new government's level of cooperation in combating corruption and terrorism, and narcotics, arms, and people trafficking, will be a crucial determinant in our bilateral relations and the future of our programs.

--Markers: Continued cooperation between the U.S. military and law enforcement with the Nicaraguan military and police; GON/military/National Assembly action on MANPADS destruction; GON/law enforcement/military/legislative/judicial and executive branch support of counter-narcotics/counterterrorism/TIP efforts including support for the new counter-narcotics/anti-corruption vetted unit and appropriate laws, regulations, and their enforcement.

--Red Lines: No traction on further MANPADS destruction and/or lack of proper security to maintain the stocks or sales of stocks to unfriendly nations or agents; efforts to derail vetted unit operations; ignoring obligations to take actions against individuals and organizations that support terrorism, decline in efforts to combat TIP (prevention, protection of victims, prosecution of perpetrators, or allowing the problem to grow; drop in counter-narcotics cooperation, seizures, failure to jail, try, and sentence traffickers; and considerable influence and involvement by other military, intelligence or law enforcement forces hostile to the United States.

#### PROGRESS ON PROPERTY CLAIMS RESOLUTION

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19. (C) Adequate progress in the new government's resolution of outstanding U.S. citizen property claims is another vital marker. Indeed, much of our assistance is tied to the GON's cooperation on this matter.

--Markers: Reasonable progress in resolving outstanding U.S. citizen property claims, including those properties in the hands of the Nicaraguan military; GON actions to deter/penalize further confiscations; and, the selection of a qualified, non-partisan property superintendent.

--Red Lines: Slippage in the number of cases resolved in 2007 527 waiver period as a result of the lack of government cooperation, or the passage of legislation or implementation

of regulations that hinder progress; the failure of GON to prevent/deal with new confiscations; or, signs that the FSLN government starts to de-link its responsibility for the actions or inactions of the new property superintendency and the lack of resolutions by claiming it is an independent entity. .

FISCAL RESPONSIBILITY, FREE MARKET POLICIES, CAFTA

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¶10. (C) We will also monitor the Sandinista government's adherence to fiscally responsible, sound macroeconomic, free market policies -- including its cooperation, or lack thereof, on advancing CAFTA.

--Markers: Continued reduction of the budget deficit through rising revenues and fiscal prudence; policies designed to keep inflation in check and a stable currency; positive net foreign and U.S. investment on an annual basis; positive trajectories for both imports from and exports to the United States; excellent relations with international financial institutions and donors; and continued support from the executive and legislative branches of government for a growing bilateral trade and investment relationship with the United States.

--Red Lines: The appearance of serious trade and budget imbalances as the result of bad policy; hiding/fabricating economic data; a reluctance to publicize or be associated with CAFTA successes, while emphasizing minor successes with countries that publicly oppose the United States; deteriorating relations with donors; scapegoating international financial institutions, the WTO, or CAFTA for economic problems that arise; or a request to renegotiate a significant portion of CAFTA with the United States.

BOLSTERING CIVIL SOCIETY, THE OPPOSITION

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¶11. (C) We believe that much of our assistance in the future should be directed towards bolstering civil society, including democratically committed NGOs and foundations like Movimiento por Nicaragua (MpN), JUDENIC, Etica y Transparencia (ET), IPADE, Pro Justicia, the IEEPP, Hagamos Democracia, and the Permanent Human Rights Council (CPDH), among others. In turn, these groups will help strengthen Nicaragua's new democratic parties and perhaps encourage the traditional FSLN and PLC parties to reform. (Note: Post will submit ideas/proposals in this regard septel. End Note.

NEXT STEPS

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¶12. (C) Ambassador met with FSLN International Relations Secretary Samuel Santos on November 30 to follow up on our plans and outline our programs and their parameters to members of Ortega's transition team in December (septel).

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